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SUBJECT: LUKASHENKO BOTCHES POTASH EXPORTS

Classified By: Classified by Ambassador George Krol for Reasons 1.4(B,D)
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1. (U) Summary: Potash is Belarus' second largest export commodity, earning the country USD 609 million in 2005. Most of this revenue went to the GOB, which owns the sole potash producer. In order to squeeze more money from this valuable export, last year Lukashenko created a potash exporting company and ordered a vast increase in production and prices. Unfortunately for the regime, China, Belarus' main potash customer, refused to pay higher prices and is now buying potash elsewhere. Potash stockpiles grew until the GOB closed the mines in April. The officials in Belarus' potash company now fear being sent to jail over their failure to meet Lukashenko's unrealistic targets. End summary.

Potash: Belarus' Primary Natural Resource

2. (U) The GOB previously exported potash (used primarily for fertilizer) under the auspices of the International Potassium Company (IPC), a joint venture between Belarus' Belaruskaly (state-owned) and Russia's Silvinit and Uralkaly. In April 2005 Lukashenko announced that Belarus was pulling out of IPC and creating its own potash export company, the Belarusian Potassium Company (BPC), so as to remove all middlemen and maximize profits. BPC was created as a wholly-owned subsidiary of the GOB petroleum concern Belneftekhim, but Russia's Uralkaly subsequently bought a 50% share. In September 2005 BPC made its first sale, 25,000 tons of potash to the Philippines.

3. (U) Potash is the only natural resource Belarus has in quantity. Belarus exported 4.3 million tons of potash in 2005, of which 2.1 million tons went to China. Potash exports earned the country USD 609 million in 2005 (at an average price of USD 141.7/ton). Lukashenko ordered Belaruskaly and BPC to boost exports to 7.3 million tons for 2006 and earn at least USD one billion, even though Belaruskaly stated publicly its maximum annual capacity is 5.5 million tons. This amount reportedly represents 14.85% of world potash production. Potash is Belarus' second largest export (after oil, which is imported from Russia and re-exported), and Belaruskaly is the country's third largest exporter (after the two oil refineries).

Belarus' Command Economy Runs Afoul of China's Market

4. (U) In late 2005 BPC commenced annual negotiations with Belaruskaly's largest customer, China. According to several contacts and press sources, Lukashenko personally ordered BPC's management to ensure that Belarus received an additional USD 40 per ton of potash from China in its 2006 contract. When negotiations began, China on the contrary insisted that Belarus cut its prices by USD 20/ton. BPC and China have undergone several rounds of negotiations, but BPC negotiators have no room to compromise and no deal has been signed. Belarusian press reports China is now buying potash from two Russian companies.

5. (U) Because of a lack of a deal with China, BPC's exports fell 33% in January and February, costing Belarus an estimated USD 50 to 60 million in lost profits. A Belaruskaly spokesman reported in early April the company's exports for the year were down 40%, therefore Belaruskaly was shutting two of its four mine groups for unscheduled maintenance. Attributing the drop in sales to the lack of a

deal with China, the spokesman added that Belaruskaly had fully supplied the domestic market and did not want to put any excess production into storage. Faced with increased supply, the Ministry of Agriculture announced in mid-April that the GOB would increase the domestic use of potash fertilizer by 60% this year to 1.298 million tons.

Belaruskaly in Desperate Straits

16. (C) Independent journalist Roman Yakovlevsky reported in late April that all four of Belaruskaly's mine groups were closed for lack of demand. While the company announced the mines are shut for unscheduled maintenance, Yakovlevsky claimed the company's warehouses are filled with unsold potash. On April 7, independent trade union leader Aleksandr Yarushuk, whose BCDTU has a branch at Belaruskaly, told Poloff the company has 500,000 tons of unsold potash in storage as a result of the failure to sell to China. Economic journalist Tatyana Manenok told Econoff on April 4 that she interviewed several senior officials at BPC and Belaruskaly. They claimed Lukashenko threatened them with jail if the company did not meet the unrealistic demands he set, and these officials are afraid the regime will blame them for Belarus losing a major source of export revenue. (Note: Belarus earned USD 300 million selling potash to China alone in 2005.)

17. (C) Independent economist Jaroslav Romanchuk told Econoff April 17 that the director of Belaruskaly is not free to set prices, but rather must accept the decisions of the Presidential Administration, which bear no relation to market forces. As a result of Lukashenko's unrealistic demand to increase prices, Russian companies underbid Belarus and secured contracts with China. Romanchuk claimed it was current Head of the Security Council Viktor Sheyman's idea to create BPC, and that Sheyman is losing favor with Lukashenko as a result of this debacle.

Comment

18. (C) Many people, both in the opposition and out, have told us in recent months that the Lukashenko regime will not fall because of the actions of the opposition, but because of its own economic ineptitude and possibly pressure from Russia. This example, where Belarus lost a significant source of GOB revenue because Lukashenko ignored market realities, certainly buttresses such an opinion. However, as long as Minsk continues to receive natural gas and oil from Russia at heavy discounts, the regime will retain a strong, if shrinking, economic cushion to cover its mistakes.
Krol